Morgan Stanley

Financial Advisor/Private Wealth Advisor

2018 Compensation Plan, Lending Growth Award and Recognition Programs

Compensation and Recognition Program

As of January 24th, 2018

Morgan Stanley

» 2018 Advisor Compensation Plan, Lending Growth Award and Recognition Programs

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This document will be periodically updated with any changes. To obtain the latest version, visit the 2018 Advisor Compensation website on 3DR > Practice > Advisor Compensation 2018. In addition, the most recent version of the detailed 2018 Product Appendix is available on the website.

Introduction

The Morgan Stanley Wealth Management Financial Advisor / Private Wealth Advisor (collectively "Advisor" or "FA/PWA") Compensation Plan provides Advisors with a guaranteed salary as well as an opportunity to generate significant additional income through Incentive Compensation and the Growth Award.

Incentive Compensation

Eligibility is determined monthly based on Total Credits (based on the Credit Rate Schedule and Credit Rate Schedule Exceptions described in sections 1.2.1 & 1.2.6) derived from Trailing 12-month Gross Revenue and the rules and conditions set forth in this Program. Incentive Compensation is comprised of Cash Credits that are awarded and paid in cash each month, and Deferred Credits that accrue each month and are granted as a deferred compensation award in early 2019.

Lending Growth Award Program

The 2018 Lending Growth Award Program rewards Advisors who help clients meet their Lending needs in a manner that is consistent with their clients' best interests. The Program is comprised of the following components:

- **Lending Growth Award** rewards Advisors who utilize Lending opportunities consistent with the best interests of clients
- Advisors who receive a Lending Growth Award will also receive:
  - **25% Additional Business Development Allowance ("BDA")** to further invest in growing Advisor businesses
  - **Support Staff Recognition Balance** to acknowledge the integral contributions support staff provide in growing Advisor businesses. Advisors will receive the ability to direct the Firm to provide certain funds to support staff

The Lending Growth Award Program is calculated annually and will be awarded prior to March 31, 2019.

SECTION 1: Compensation Programs

How it adds up:

Total Potential Incentive Compensation and Lending Growth Award[1,2]

(Assumes positive revenue growth in 2018, with respect to 2017, and that Trailing 12-month Gross Revenue remained in the respective band for all of 2018)

Trailing 12-month Gross Revenue ($)	Lending Balance Growth ($)	Length of Service / Length of Experience (years)				
		5	10	15	20	25
5,000,000	45,000,000	56.1%	58.1%	58.6%	59.1%	59.6%
3,300,000	35,000,000	54.1	56.1	56.6	57.1	57.6
2,750,000	30,000,000	53.1	55.1	55.6	56.1	56.6
2,400,000	25,000,000	51.8	53.8	54.3	54.8	54.8
1,800,000	19,000,000	51.1	53.1	53.6	53.6	53.6
1,200,000	15,000,000	50.7	52.7	52.7	52.7	52.7
975,000	12,500,000	48.2	49.7	49.7	49.7	49.7
900,000	10,000,000	47.0	48.5	48.5	48.5	48.5
725,000	7,500,000	46.1	47.6	47.6	47.6	47.6
600,000	5,000,000	44.4	45.9	45.9	45.9	45.9
485,000	2,750,000	43.5	43.5	43.5	43.5	43.5
425,000	2,500,000	40.1	40.1	40.1	40.1	40.1
360,000	1,500,000	37.5	37.5	37.5	37.5	37.5
300,000	750,000	34.9	34.9	34.9	34.9	34.9
240,000	500,000	32.7	20.0	20.0	20.0	20.0

1.1 Salary

All Advisors will receive a guaranteed monthly salary. Total compensation in any month will not be lower than the applicable monthly salary by state.

The salary for each Advisor is determined by the state in which the Advisor is employed. The table below summarizes the current Advisor salaries by state. However, the salaries are subject to prospective adjustment throughout the year at Morgan Stanley Wealth Management's sole discretion, including changes based on applicable federal or state law.

Salary payments will be made bi-monthly, on the 15th (or on the preceding business day should the 15th fall on a weekend or holiday) and the last business day of each month. If applicable, incentive compensation payments will be made on the 10th of each month (or on the preceding business day should the 10th fall on a weekend or holiday).

Monthly Salary by State

State	Advisor Salary ($)
Alaska	3,412
California	3,814
Connecticut	2,059
Hawaii	2,000
Maine	2,500
New York	4,225
All Other	1,972

[1] Chart reflects estimates and is not intended to reflect a guarantee of any level of remuneration or income
[2] Assumes Advisor was hired before January 1st, 2016, is not part of the Financial Advisor Associate ("FAA") program at the end of 2018, had Gross Revenue in 2017 that was greater than zero, was not in a non-producing role at any time during 2017, and did not end 2018 with a 20% Credit Rate

SECTION 1: Compensation Programs

1.2 Incentive Compensation

1.2.1 Total Credits

Subject to the terms outlined in this Program, each month an Advisor will be allocated Total Credits based on his/her Credit Rate and Creditable Revenue. The applicable Credit Rate for each Advisor is based on two factors: (1) the Advisor's Trailing 12-month Gross Revenue and (2) his/her Length of Service ("LOS"), as shown in the Credit Rate Schedule below.

Credit Rate Schedule (%)

Trailing 12-month	Length of Service (years)						
Gross Revenue ($)	**0 - 4.9**	**5 - 6.9**	**7 - 8.9**	**9 - 14.9**	**15 - 19.9**	**20 - 24.9**	**25+**
5,000,000+	51.5%	52.0%	53.5%	54.0%	54.5%	55.0%	55.5%
3,300,000 – 4,999,999	49.0	49.5	51.0	51.5	52.0	52.5	53.0
2,750,000 – 3,299,999	48.0	48.5	50.0	50.5	51.0	51.5	52.0
2,400,000 – 2,749,999	47.0	47.5	49.0	49.5	50.0	50.5	50.5
1,800,000 – 2,399,999	46.5	47.0	48.5	49.0	49.5	49.5	49.5
1,200,000 – 1,799,999	45.5	46.0	47.5	48.0	48.0	48.0	48.0
975,000 – 1,199,999	43.0	43.5	45.0	45.0	45.0	45.0	45.0
900,000 – 974,999	42.5	43.0	44.5	44.5	44.5	44.5	44.5
725,000 – 899,999	42.0	42.5	44.0	44.0	44.0	44.0	44.0
600,000 – 724,999	41.0	41.5	43.0	43.0	43.0	43.0	43.0
485,000 – 599,999	41.0	41.5	41.5	41.5	41.5	41.5	41.5
425,000 – 484,999	38.0	38.0	38.0	38.0	38.0	38.0	38.0
360,000 – 424,999	36.0	36.0	36.0	36.0	36.0	36.0	36.0
300,000 – 359,999	34.0	34.0	34.0	34.0	34.0	34.0	34.0
240,000 – 299,999	32.0	32.0	32.0	32.0	32.0	32.0	32.0
0 – 239,999	28.0	28.0	28.0	28.0	28.0	28.0	28.0

Advisors with a Length of Experience ("LOE") of Less Than Five Years[3]

Trailing 12-month Gross Revenue ($)	For All Length of Service
300,000–359,999	36.0%
240,000–299,999	35.0
0–239,999	34.0

Advisors with a Length of Experience ("LOE") of Nine or More Years[4]

Trailing 12-month Gross Revenue ($)	For All Length of Service
0–299,999	20.0%

An Advisor's Credit Rate will be determined monthly pursuant to the foregoing schedule based on the Advisor's Trailing 12-month Gross Revenue and LOS as of the prior month-end (and subject to any election to participate in the Alternative Flexible Grid ("AFG") Program as described in Section 3.4 of this Program). The Advisor's Total Credits for each month will be determined based on the applicable Credit Rate set forth in the foregoing schedule multiplied by the Creditable Revenue generated in such month.

[3] For all Advisors with an LOE of less than five years, this schedule will apply to the three specified Trailing 12-month Gross Revenue bands, rather than the standard Credit Rate Schedule

[4] For all Advisors with an LOE of nine or more years, this schedule will apply to the specified Trailing 12-month Gross Revenue band, rather than the standard Credit Rate Schedule

If the Advisor reaches a new Trailing 12-month Gross Revenue band in the Credit Rate Schedule during a given month-end evaluation, the Credit Rate of the newly achieved Trailing 12-month Gross Revenue band will apply to Creditable Revenue generated in the subsequent month only and will NOT apply retroactively.

If the Advisor reaches a new LOS band in the Credit Rate schedule during a given month-end evaluation, the Credit Rate of the newly achieved LOS band will apply to Creditable Revenue generated in the subsequent month and will NOT apply retroactively. The new LOS band will be used prospectively to determine applicable monthly Credit Rates.

Advisors with an LOE of nine or more years as of January 1st, 2018 who have less than $300,000 in Trailing 12-month Gross Revenue, as of December 2017 month-end, will receive a monthly Credit Rate of 20.0% until the Advisor generates Trailing 12-month Gross Revenue of $300,000 or more during a given month-end evaluation, at which point the Advisor's monthly Credit Rate will be determined by the Credit Rate Schedule for the remainder of the calendar year.

Total Credits = Cash Credits + Deferred Credits

1.2.2 Deferred Compensation

A percentage of monthly Total Credits are allocated to the Advisor as Deferred Credits based on a Deferral Ratio determined by the Advisor's Trailing 12-month Gross Revenue, as shown in the Deferral Ratio Schedule below.

Deferred Credits = Total Credits × Deferral Ratio

Deferral Ratio Schedule

Trailing 12-month Gross Revenue ($)	Deferral Ratio (%)
5,000,000+	15.5
3,300,000–4,999,999	14.0
2,750,000–3,299,999	13.0
2,400,000–2,749,999	12.5
1,800,000–2,399,999	11.5
1,200,000–1,799,999	10.0
975,000–1,199,999	8.5
900,000–974,999	7.5
725,000–899,999	6.5
600,000–724,999	5.5
485,000–599,999	5.0
425,000–484,999	4.0
360,000–424,999	3.5
300,000–359,999	2.5
240,000–299,999	1.5
0–239,999	1.5

An Advisor's Deferral Ratio is determined monthly based on Trailing 12-month Gross Revenue as of the prior month-end. The Deferral Ratio will be applied to Total Credits in a given month to determine monthly Deferred Credits.

If the Advisor reaches a new Trailing 12-month Gross Revenue band in the Deferral Ratio schedule during a given month-end evaluation, the Deferral Ratio of the newly achieved Trailing 12-month Gross Revenue band will apply to Total Credits generated in the subsequent month-end and will NOT apply retroactively.

The cumulative value of all monthly Deferred Credits for 2018 will generally be granted to the Advisor in the form of a deferred compensation award shortly following year-end (provided the Advisor is employed on the grant date). Twenty-five percent of the cumulative monthly Deferred Credits will be granted in the form of a restricted stock unit award that is scheduled to convert to shares of Morgan Stanley common stock approximately four years from the grant date and seventy-five percent of the cumulative monthly Deferred Credits will be granted in the form of a cash-based deferred compensation award scheduled to be paid approximately six years from the grant date. The remaining terms and conditions of the deferred compensation awards, including termination of employment and cancellation provisions, will be determined by the Compensation, Management Development and Succession Committee of Morgan Stanley's Board of Directors on or prior to the grant date and will be set forth in the applicable award documentation. Deferred compensation awards are contingent upon the Advisor remaining employed through the grant and vesting dates of the award.

If the initial value of an Advisor's cumulative monthly Deferred Credits for 2018 is less than $1,000, such Deferred Credits will not be granted as a deferred compensation award, but will instead be paid in cash on the date 2018 year-end bonuses are paid to Firm employees generally (and in no event later than March 15, 2019), contingent on the Advisor's continued employment in good standing through the payment date.

Advisors with an LOE of nine or more years as of January 1st, 2018 who have less than $300,000 in Trailing 12-month Gross Revenue, as of December 2017 month-end, will receive a monthly Deferral Ratio of 0%. If the Advisor generates Trailing 12-month Gross Revenue of $300,000 or more during a given month-end evaluation, the Advisor's monthly Deferral Ratio will be determined by the Deferral Ratio Schedule for the remainder of the calendar year.

Deferred compensation awards are not intended to provide for retirement income.

Financial Advisor Associates ("FAAs") are not eligible to receive year-end deferred compensation awards.

1.2.3 Cash Compensation

Total Credits remaining after Deferred Credits are allocated are then awarded to the Advisor as Cash Credits. An Advisor's Cash Credits are calculated monthly.

Cash Credits = Total Credits − Deferred Credits

Example:
An Advisor with a Length of Service ("LOS") of 15 years produces $800,000 in Trailing 12-month Gross Revenue as of May 31, 2018. The Advisor's Creditable Revenue for June 2018 is $70,000.

- Credit Rate is 44.0%
- Monthly Total Credits are $30,800 [$70,000 × 44.0% = $30,800]
- Monthly Deferred Credits are $2,002 [$30,800 × 6.5% = $2,002]
- Monthly Cash Credits are $28,798 [$30,800-$2,002 = $28,798]

Calculation of Cash Credit
Cash Credit is the amount by which monthly Cash Credits exceed Advisor salary for the month. An Advisor whose monthly Cash Credits do not exceed his/her salary for the month is not eligible to receive Cash Credit. An Advisor's Cash Credit is calculated monthly and is paid in arrears on a monthly basis. Cash Credit is calculated based on the following:

1) Gross Revenue – Revenue attributable to the Advisor that is inclusive of his/her Revenue Share

2) Trailing 12-month Gross Revenue – Gross Revenue attributable to the Advisor, as of the prior month-end, generated over the preceding twelve months; e.g. June 2018 Trailing 12-month Gross Revenue is the aggregate Gross Revenue generated during the twelve consecutive months between June 2017 and May 2018

3) Creditable Revenue – Gross Revenue attributable to the Advisor that is in excess of his/her Revenue Share

4) Revenue Share – Gross Revenue that is allocated to support staff through Revenue Share arrangements

5) Grid Revenue – Revenue for which Credits are determined based on the Credit Rate Schedule, which includes revenue subject to the Discounting Policy. Grid Revenue does not include Flat-Rate Revenue (for which Credits are determined based on a flat Credit Rate) or 0% Revenue (for which Credits are determined based on a 0% Credit Rate)

6) Credits – Advisors are allocated monthly Credits based on the Credit Rate Schedule (Section 1.2.1) and Credit Rate Schedule Exceptions (Section 1.2.6)

7) Credit Adjustments – Credits are adjusted upwards or downwards to reflect Incentive Compensation for which the Advisor did not receive proper Credits, or for which the Advisor received prior Credits that he/she should not have received. Under no circumstances is an Advisor to be allocated Credits or maintain Credits for transactions that were canceled, that did not close, that were reversed, and/or where the Advisor was allocated Credits in error

8) Total Credits – Aggregate of monthly Credits and Credit Adjustments as described in items 6 and 7 above

9) Deferred Credits –Monthly Total Credits multiplied by the Advisor's Deferral Ratio as defined in the Deferral Ratio schedule (Section 1.2.2)

10) Total Deferred Credits – Aggregate of monthly Deferred Credits as described in Section 1.2.2

11) Cash Credits – Monthly Total Credits, less monthly Deferred Credits, that are in excess of the Advisor's monthly salary

12) Total Cash Credits – Aggregate of monthly Cash Credits as described in Section 1.2.3

13) Length of Service ("LOS") – The number of whole years that an Advisor has been employed by Morgan Stanley Wealth Management on or after June 1, 2009 plus the number of whole years that the Advisor was employed by either legacy Morgan Stanley or legacy Smith Barney immediately preceding his/her employment with Morgan Stanley Wealth Management, rounded down to the nearest whole year. LOS will not include any period of employment preceding employment at the immediately prior legacy firm, including prior employment at either Morgan Stanley or Smith Barney. LOS for all purposes related to Advisor Compensation shall be defined exclusively as set forth in this paragraph and without reference to any other LOS definition that the Firm may apply in other contexts, including, for example, for purposes of certain benefits calculations

14) Length of Experience ("LOE") – The number of whole years that an Advisor has been a Registered Representative in the industry; calculated by subtracting the year of registration from the current year and subtracting "1" from the resulting number

Under no circumstances shall an Advisor be eligible to receive any Incentive Compensation under this Program unless and until the Incentive Compensation calculation is made and the Advisor meets all other conditions for receipt of such Incentive Compensation as determined by Morgan Stanley Wealth Management. In the event an Advisor who has been advanced Incentive Compensation because of fees that were charged to a customer in advance terminates employment with the Firm, the Advisor's allocated Total Credits in the final month of employment will be adjusted to account for the unearned portion of the advanced Cash Credits. In addition, an Advisor is obligated to repay Morgan Stanley Wealth Management any outstanding advanced, but unearned, Incentive Compensation after termination of employment.

Morgan Stanley Wealth Management expects its Advisors to demonstrate excellent guardianship at all times, including demonstrating the utmost professionalism and upholding the highest ethical and regulatory standards and its Incentive Compensation programs are premised on that expectation. Accordingly, Morgan Stanley Wealth Management reserves the right, on notice to the impacted individual, to make prospective

downward adjustments to an individual Advisor's Credit Rate, or to make other downward adjustments as part of the calculation of Incentive Compensation at any time, where, in its sole judgment, such an adjustment is warranted based on the Advisor's conduct. The determination as to whether a downward adjustment is warranted on account of guardianship issues will be made by Morgan Stanley Wealth Management in its sole discretion, but may include, for example, significant trade errors, excessive or significant customer complaints, regulatory or ethical lapses, or other conduct that is determined to be contrary to the best interests of the clients or the Firm.

1.2.4 Team Compensation

In 2018, the Firm will continue to provide the opportunity for eligible Team members to receive an increased Credit Rate based on the Individual Eligibility or Team Eligibility Criteria below.

For purposes of Team Compensation, a Team eligible for Team Compensation must consist of two or more Advisors who each derive at least 50% of their individual Trailing 12-month Gross Revenue from business generated in JPN(s) they share with each other.

Individual Eligibility

To be considered for Team Compensation through Individual Eligibility, an Advisor must meet the following criteria:

- Be a Team eligible for Team Compensation, defined as each Team member generating at least 50% of their individual Trailing 12-month Gross Revenue from business generated in JPN(s) they share with each other
- Generate Trailing 12-month Gross Revenue at or above the 50th percentile by industry Length of Experience ("LOE") thresholds[5] as published on the 2018 Advisor Compensation website
- Generate at least 10% of the Team's aggregate Trailing 12-month Gross Revenue OR if the Team's aggregate Trailing 12-month Gross Revenue is greater than $3,000,000, generate at least 5% of the Team's aggregate Trailing 12-month Gross Revenue

Team Eligibility

The Team as a whole can also qualify for Team Compensation through Team Eligibility. To be considered for Team Eligibility, the Team must meet the following criteria:

- Be a Team eligible for Team Compensation, defined as each Team member generating at least 50% of their individual Trailing 12-month Gross Revenue from business generated in JPN(s) they share with each other
- Generate aggregate Trailing 12-month Gross Revenue of at least $2,500,000 AND have average Gross Revenue per Advisor of at least $750,000

Once a Team has qualified for Team Compensation through Team Eligibility, the following will apply to each new Advisor who joins the Team:

- If average Trailing 12-month Gross Revenue per Advisor is at least $750,000 when the new Team member is added, the new Team member will also qualify for Team Compensation through Team Eligibility
- If average Trailing 12-month Gross Revenue per Advisor falls below $750,000 when the new Team member is added, the new Team member will be excluded from Team Eligibility calculations and will not qualify for Team Compensation through Team Eligibility
  - Team Eligibility for existing Team members will not be affected
  - The new Team member may qualify for Team Compensation through Individual Eligibility criteria

[5] Advisor with the highest Gross Revenue on the Team must also generate Trailing 12-month Gross Revenue at or above the 50th percentile threshold by LOE band

Advisors eligible for Team Compensation will receive the Credit Rate, determined monthly, that corresponds to:

- The Trailing 12-month Gross Revenue band of the Advisor on the Team with the highest Trailing 12-month Gross Revenue; AND
- The lower LOS band between (i) the Advisor on the Team with the highest Trailing 12-month Gross Revenue and (ii) the Advisor eligible for Team Compensation

Eligible Advisors will receive the Deferral Ratio that corresponds to the Trailing 12-month Gross Revenue band of the Advisor on the Team with the highest Trailing 12-month Gross Revenue.

An Advisor's individual Credit Rate cannot be reduced because of Team Compensation, nor can an Advisor's Team Compensation Credit Rate be greater than the Credit Rate of the Advisor on the Team with the highest Trailing 12-month Gross Revenue.

Advisors who meet the Individual Eligibility requirements or the Team Eligibility requirements for Team Compensation described above at any time during 2018 will be eligible for Team Compensation beginning the month following his/her qualification. Advisors will receive Team Compensation prospectively through the end of the year, provided the Team continues to satisfy the requirements identified above, but will NOT be awarded Team Compensation retroactively.

Team Compensation is not extended to Advisors outside of a Team relationship, to members of a Team that subsequently dissolves, or to Advisors who leave a Team relationship. In such instances, an Advisor's Credit Rate and Deferral Ratio will revert to his/her individual Credit Rate and Deferral Ratio.

Team Compensation Example 1:

The following Advisors are on a Team for all of 2018 and generated Trailing 12-month Gross Revenue at or above their respective 50^{th} percentile by LOE thresholds:

- Advisor #1 produces $1,500,000 of Trailing 12-month Gross Revenue, as of June month-end, and has LOS of 20 years; the associated Credit Rate is 48.0% and Deferral Ratio is 10.0%
- Advisor #2 produces $400,000 of Trailing 12-month Gross Revenue, as of June month-end, and has LOS of 4 years; the associated Credit Rate is 36.0% and Deferral Ratio is 3.5%

Advisor #2's Credit Rate will be determined using Advisor #1's Trailing 12-month Gross Revenue band and Advisor #2's LOS band. Therefore, Advisor #2's Credit Rate in July will be 45.5% and Deferral Ratio will be 10.0%.

Team Compensation Example 2:

The following Advisors are on a Team for all of 2018 and generated Trailing 12-month Gross Revenue at or above their respective 50^{th} percentile by LOE thresholds:

- Advisor #1 produces $1,200,000 of Trailing 12-month Gross Revenue, as of August month-end, and has LOS of 5 years; the associated Credit Rate is 46.0% and Deferral Ratio is 10.0%
- Advisor #2 produces $500,000 of Trailing 12-month Gross Revenue, as of August month-end, and has LOS of 7 years; the associated Credit Rate is 41.5% and Deferral Ratio is 5.0%

Advisor #2's Credit Rate will be determined using Advisor #1's Trailing 12-month Gross Revenue band and Advisor #1's LOS band. Therefore, Advisor #2's Credit Rate for September will be 46.0% and Deferral Ratio will be 10.0%

Recruits

Recruits will be treated in the same manner as an established Advisor by evaluating the Trailing 12-month Gross Revenue listed on their recruit paperwork against the published 50th percentile by LOE threshold.

Financial Advisor Associates ("FAAs")

FAAs are not eligible for Team Compensation while participating in the FAA program.

Teams[6] that partner with an FAA will be eligible for Phantom Gross Revenue[7], based on the amount of Gross Revenue that the FAA[8] generates in the-Team. To receive Phantom Gross Revenue, a non-FAA Team member must generate at least $500,000 in Trailing 12-month Gross Revenue and have LOE greater than or equal to 5 years.

The maximum amount of Phantom Gross Revenue that non-FAA Team members can receive in aggregate is:

- Up to $30,000 while FAA is in production months 1-12
- Up to $20,000 while FAA is in production months 13-24

Phantom Gross Revenue will be allocated to non-FAA Team members based on current JPN split percentages, excluding the FAA's portion from the total. FAAs will not be eligible for Phantom Gross Revenue.

Team Compensation Example 3:

The following two Advisors are on a Team and partner with an FAA:

- Advisor #1 and Advisor #2 both have LOS of 10 years, $1,200,000 in Trailing 12-month Gross Revenue and a 40% split on the Team
- FAA joins the team in production month 1, produces $70,000 in Trailing 12-month Gross Revenue by production month 12, and has a 20% split on the Team

Advisors #1 and #2 will receive the full $30,000 in Phantom Gross Revenue. Excluding the FAA's portion of the Team's current JPN split, Advisors #1 and #2 both have a 50% split of the Phantom Gross Revenue. Therefore, Advisors #1 and #2 will receive $15,000 each in Phantom Gross Revenue.

[6] Includes Teams who intend to form a Team but are 6 to 9 months from materializing
[7] Phantom Gross Revenue is revenue with 0% Credit Rate and is included in annual Gross Revenue to determine an Advisor's Credit Rate and Deferral Ratio, BDA/DFWA, club qualifications, and titles
[8] Phantom Gross Revenue will not be awarded on Gross Revenue generated by a FAA(s) designated as Does Not Meet ("DNM") requirements

1.2.6 Credit Rate Schedule Exceptions

Advisor / Advisor-Related Retirement Accounts

All transactions in retirement accounts categorized as Advisor or Advisor-related will not be eligible for compensation. Advisor / Advisor-Related accounts include all accounts where the accountholder is the Advisor's spouse, child, financial dependent, or other relation whose account(s) the Advisor could reasonably be expected to influence or control[9]. Retirement accounts include traditional, Roth, SIMPLE, and SEP Individual Retirement Accounts ("IRAs"); 403(b) plans; Versatile Investment Program ("VIP") accounts; Retirement Plan Manager ("RPM") accounts; Coverdell Education Savings Account ("ESA"); and other Retirement Planning accounts.

All transactions in non-retirement accounts categorized as Advisor or Advisor-related will be eligible for compensation.

Equity, Options, and Choice Select Discounting

In situations where an Advisor exercises discretion to offer a discount to the client, the Advisor's Credit Rate will be reduced per the Discount Sharing Schedule below, subject to a minimum 10% Credit Rate. Discounting on cents-per-share trades will be converted to a percentage discount for proper application.

Discount Sharing Schedule Summary

Pricing	Credit
Discount of 0% up to 10%	Credit Rate minus 60bps per 1% of Discount over 0%
Discount over 10% and up to 30%	Credit Rate minus 45bps per 1% of Discount over 10%
Discount over 30% and up to 45%	Credit Rate minus 40bps per 1% of Discount over 30%
Discount greater than 45%	Credit Rate minus 25bps per 1% of Discount over 45%

The below Discount Sharing Schedule details the exact impact to the Advisor's Credit Rate based on the level of discount offered to the client. All numbers shown are quoted as percentages:

Discount Sharing Schedule

Level of Discount (%)	Credit Rate Reduction (%)	Level of Discount (%)	Credit Rate Reduction (%)	Level of Discount (%)	Credit Rate Reduction (%)	Level of Discount (%)	Credit Rate Reduction (%)
0	0.00	25	12.75	50	22.25	75	28.50
1	0.60	26	13.20	51	22.50	76	28.75
2	1.20	27	13.65	52	22.75	77	29.00
3	1.80	28	14.10	53	23.00	78	29.25
4	2.40	29	14.55	54	23.25	79	29.50
5	3.00	30	15.00	55	23.50	80	29.75
6	3.60	31	15.40	56	23.75	81	30.00
7	4.20	32	15.80	57	24.00	82	30.25
8	4.80	33	16.20	58	24.25	83	30.50
9	5.40	34	16.60	59	24.50	84	30.75
10	6.00	35	17.00	60	24.75	85	31.00
11	6.45	36	17.40	61	25.00	86	31.25
12	6.90	37	17.80	62	25.25	87	31.50
13	7.35	38	18.20	63	25.50	88	31.75
14	7.80	39	18.60	64	25.75	89	32.00
15	8.25	40	19.00	65	26.00	90	32.25
16	8.70	41	19.40	66	26.25	91	32.50
17	9.15	42	19.80	67	26.50	92	32.75
18	9.60	43	20.20	68	26.75	93	33.00
19	10.05	44	20.60	69	27.00	94	33.25
20	10.50	45	21.00	70	27.25	95	33.50
21	10.95	46	21.25	71	27.50	96	33.75
22	11.40	47	21.50	72	27.75	97	34.00
23	11.85	48	21.75	73	28.00	98	34.25
24	12.30	49	22.00	74	28.25	99	34.50

[9] Scope of Advisor-related account flag is subject to change; policy will apply to all accounts currently self-disclosed and identified as Advisor-related

The Equity and Options Discounting Policy shall not apply to the following:

Discount Exceptions

Employee Accounts

Employee - Related Accounts

Futures (the below Futures Discount Sharing policy applies)

Ladder Portfolios - All one-ticket, preplanned ladders in order-entry inventory

SOP Accounts / CSX Accounts / DSB Accounts

Strategic Equity Portfolio ("STEP")

Corporate Equity Solutions ("CES") - directed Brokerage

Flat-Rate accounts are credited at lower of Credit Rate or Flat-Rate

Equity Transactions (excluding Choice Select) with commission amount of $350 or more (exemption does not apply to commissions priced at an effective rate of <4 cents per share)

Options Transactions (excluding Choice Select) with commission amount of $350 or more (exemption does not apply to transactions with premiums ≥ $1.00 and commissions < $3.00 per contract (equivalent to $0.03 per share) or premiums < $1.00 and commissions < $1.00 per contract (equivalent to $0.01 per share)

Example 1: Equity transaction with a commission charged to the client of less than $350

An Advisor with a Credit Rate (based on the Credit Rate Schedule) of 36% executes a trade with a commission of $400:

1) Advisor discounts this trade by 40%, yielding commissions of $240 [$400 – ($400 * 40%) = $240]
2) As seen in the Discount Sharing Schedule above, the Credit Rate reduction on this trade is 19%
3) Credit Rate on this trade is 17% [36% - 19% = 17%]
4) Advisor's Total Credit is $40.80 [$240 * 17% = $40.80]

Example 2: Option transaction with a commission charged to the client of less than $350, subject to a 10% minimum Credit Rate

An Advisor with a Credit Rate (based on the Credit Rate Schedule) of 36% executes a trade with a commission of $600:

1) Advisor discounts this trade by 80%, yielding commissions of $120 [$600 – ($600 * 80%) = $120]
2) As seen in the Discount Sharing Schedule above, the Credit Rate reduction on this trade is 29.75%
3) Calculated Credit Rate on this trade is 6.5% [36% - 29.75% = 6.25%] however, the applicable Credit Rate will be 10% due to minimum Credit Rate criteria
4) Advisor's Total Credit is $12.00 [$120 * 10% = $12.00]

Futures and Commodities Discounting

In situations where the Advisor exercises discretion to offer a discount to the client, the Advisor's Credit Rate will be reduced as per the tables below, subject to a minimum 10% Credit Rate.

Summary Table

Commission Per Half-Turn Contract	Credit
Above and equal to $18.00	Credit Rate
Less than $18.00	Credit Rate minus 1% for each dollar, or portion of dollar, of commission per half-turn under $18.00

Below is a detailed table showing the exact impact to Credit allocation based on level of discount:

Detailed Table

Commission Per Half-Turn Contract	Credit Rate Reduction	Commission Per Half-Turn Contract	Credit Rate Reduction
$17.00 to $17.99	1.0%	$8.00 to $8.99	10.0%
$16.00 to $16.99	2.0%	$7.00 to $7.99	11.0%
$15.00 to $15.99	3.0%	$6.00 to $6.99	12.0%
$14.00 to $14.99	4.0%	$5.00 to $5.99	13.0%
$13.00 to $13.99	5.0%	$4.00 to $4.99	14.0%
$12.00 to $12.99	6.0%	$3.00 to $3.99	15.0%
$11.00 to $11.99	7.0%	$2.00 to $2.99	16.0%
$10.00 to $10.99	8.0%	$1.00 to $1.99	17.0%
$9.00 to $9.99	9.0%		

Discounting below $1.00 per Half-Turn Contract is only allowed with prior approval from Capital Markets, and will result in a 17.0% Credit Rate reduction.

Example:

If an Advisor with a Credit Rate (based on the Credit Rate schedule) of 36% executes 10 Futures or Commodities contracts with half-turn commission of $10.25 per contract, the Credit Rate on this trade would be 28.0% [36.0% - 8.0% = 28.0%].

The Futures and Commodities Discounting policy shall not apply to tickets of $350 or more where the half turn is $5.00 or greater.

Small Households

Any Household with asset levels less than the below mentioned thresholds for four consecutive months is considered a Small Household. Asset levels are calculated each month on the last trade date using the higher of: (i) the asset balance calculated during any of the immediately preceding three months; or (ii) the asset balance on the last trade date of the current month. Credit allocation for Consulting Group Gross Revenue generated in Small Households will be based on the tables below:

Financial Advisor – Small Households Schedule

Product	Household Asset Level ($)	Credit (%)
	75,000–99,999	20
Consulting Group Products[13]	50,000–74,999	15
	0–49,999	10
All Other Products	0–99,999	0

Credit allocation for PWAs will be based on the PWA Small Households policy rules in the table below for Households where 50.01% or greater of the aggregate split of a FA number or JPN is credited to PWAs AND all of the accounts within the Household were opened on or after April 1st, 2015. Households with at least one account opened before April 1st, 2015 will be subject to the FA Small Households policy rules in the table above. Households with assets less than $100,000, regardless of the aggregate split of the JPN that is credited to PWAs, will be subject to the FA Small Households policy rules in the table above.

Private Wealth Advisor – Small Households Schedule

Product	Household Asset Level ($)	Credit (%)
Consulting Group Products[10]	100,000–1,999,999	20
All Other Products	100,000–1,999,999	0

Credit allocation for Non-Resident Client ("NRC") accounts will be based on the NRC Account Small Households policy rules in the table below. NRC accounts in Households with assets less than $100,000 will be subject to the Financial Advisor Small Households policy rules in the table above:

Non-Resident Client Accounts – Small Households Schedule

Product	Household Asset Level ($)	Credit (%)
Consulting Group Products[13]	100,000–499,999	20
All Other Products	100,000–499,999	0

Revenue from products other than Consulting Group Products will receive Gross Revenue, but no Credit, under any of the applicable Small Household Schedules above.

[10] Consulting Group Products include: Consulting & Evaluation Services ("CES"), Investment Management Services ("IMS"), Select UMA, TRAK Fund Solution, TRAK CGCM, Portfolio Management, Consulting Group Advisor

The Small Households Policy shall not apply to the following:

Small Households Exceptions

- Alternative Investments that drawdown against a commitment
- Delivery Versus Payment ("DVP") Accounts
- Financial Planning Fees
- New Households (opened within previous 6 months)
- Small Business IRA Accounts, including SEP IRA, SAR-SEP IRA, and SIMPLE IRA
- Business Retirement Plan Accounts, including Versatile Investment Program ("VIP"), Retirement Plan Manager ("RPM"), Self-Directed Retirement ("SDR"), 403(b) and External Custodian Retirement Plans
- SOP Accounts / CSX Accounts / DSB Accounts
- Consulting Group Non-Custody Accounts
- First State Trust Company Accounts (Product Codes 532 and 533)
- Households served by FAs (≥50.00% of the aggregate JPN split is credited to FAs) enrolled in OneView with greater than $250,000 in combined (external OneView + Morgan Stanley) assets [see OneView exemption section below]
- Households served by PWAs (≥50.01% of the aggregate JPN split is credited to PWAs) enrolled in OneView with greater than $10,000,000 in combined (external OneView + Morgan Stanley) assets

OneView Exemption on Small Households Policy[11]

Any Gross Revenue from a client Household that is enrolled in OneView is eligible for exemption from the Small Households Policy provided that it meets the below criteria. This exemption eligibility from the Small Households Policy will apply for two years from the first day of the month following the date of the client's enrollment in OneView, regardless of the initial combined asset level in the Household or whether any transactions have occurred at the time of enrollment. At the end of two years, only assets held at Morgan Stanley will be considered, in accordance with the terms of the Small Households Policy in effect at that time.

Gross Revenue from Households enrolled in OneView that have less than $100,000 in Morgan Stanley assets but a combined asset level (external OneView assets[12] + Morgan Stanley assets) of greater than $250,000 for FAs ($10,000,000 for PWAs) will be exempt from the Small Households Policy.

If a Household enrolled in OneView (served ≥50% by FA(s)) has a combined asset level (external OneView assets + Morgan Stanley assets) of greater than $250,000, but subsequently falls below the $250,000 threshold for four consecutive months, the Household will be subjected to the Small Households Policy until its combined asset level becomes greater than $250,000 again. The exemption eligibility period will remain as two years from the client's initial enrollment in OneView (i.e. the exemption eligibility period will not restart based on changes in the combined asset level).

For example, in February 2018 a client enrolls in OneView for the first time, with a total of $90,000 in Morgan Stanley assets and $200,000 in OneView assets. Starting with February month-end processing, the Household (which is served ≥50% by FA(s)) is eligible for exemption from the Small Households Policy. The two-year eligibility exemption period will begin March 2018 and last through the end of February 2020.

[11] Morgan Stanley reserves the right to modify or terminate this exemption at any time, in its sole discretion, and apply such modification or termination immediately to affected households

[12] Does not include manual entries; only the account types included by Morgan Stanley for asset calculations will be considered for OneView external asset inclusion

Household Transfers & New Account Referrals to the Client Advisory Center ("CAC")

Gross Revenue credit received on existing Households transferred to the CAC, as well as for new Households referred directly to the CAC, will be subject to a Credit Rates in the below schedule. Household AUM will be evaluated at the end of the third month after the CAC receives the Household.

CAC Transfer & Referral Credit Rate Schedule

Household AUM	Credit Rate
<$100,000	20%
$100,000+	Standard Credit Rate

Low-Priced Securities

Advisors will not be allocated Credits on securities priced at less than $1.00 per share.

Small Trades

Credit allocation for Small Trades will be based on the table below:

Small Trades Credit Rate Schedule

Product	Transaction Amount ($)	Credit Rate (%)
Equities[13]	0–124.99	0
Options[14]	75.00–99.99	30
	50.00–74.99	20
	0–49.99	0

Fixed Income Delivery Versus Payment ("DVP") Credit Rate

Advisors are allocated Credits based on a fixed percentage on all Fixed Income business generated in DVP accounts. The Credit Rate is based on the Advisor's Trailing 12-month Gross Revenue as of the prior month-end, as follows:

Credit Rate Summary

Trailing 12-month Gross Revenue as of the prior month-end ($)	Credit Rate (%)
500,000 and over	35
0–499,999	25

The Fixed Income DVP policy shall not apply to Corporate Equity Solutions ("CES") Directed Brokerage.

[13] Shall not apply to Equity Underwriting business; for accounts subject to Flat-Rate credit, Advisors are credited the lesser of the assigned Flat-Rate and the Small Trades Credit Rate Schedule

[14] Excludes exercise and assignments

Equity Syndicate

For Households where 70% or more of Trailing 12-month Gross Revenue is generated by Equity Syndicate business, Advisors will receive a flat 20% Credit Rate on Equity Syndicate revenue. For Households where less than 70% of Trailing 12-month Gross Revenue is generated by Equity Syndicate business, Equity Syndicate Gross Revenue will be credited at the standard Credit Rate (see Section 1.2.1) and all other Credit Rate Schedule exception policies will apply.

The ratio of Equity Syndicate Gross Revenue to total Gross Revenue from a specific Household is calculated on a rolling 12-month basis at the end of each month. For example, if a Household generates $10,000 in Trailing 12-month Gross Revenue between May 2017 and April 2018, of which $8,000 is from Equity Syndicate business (80%), then any Equity Syndicate Gross Revenue from that Household for the month of April 2018 will be credited at a flat 20% Credit Rate. However, if at the end of the following month (May 2018) the same Household's Trailing 12-month Gross Revenue is $12,000, of which $8,000 is from Equity Syndicate business (~67%), all Equity Syndicate business will be credited at the standard Credit Rate for the month of May 2018 and all other Credit Rate Schedule exception policies will apply; there will be no retroactive Credit back to April 2018.

"Equity Syndicate" business refers to equity syndicate Initial Public Offerings ("IPOs"), secondary offerings, follow-ons, and block trades. This policy does not affect selling concessions on structured investments, fixed income syndicate, preferred new issues, closed-end fund IPOs, or municipal syndicate offerings.

Non-Resident Client ("NRC") Business

NRC business includes all business done in accounts held by individuals or entities with a non-U.S. legal address on the account (excluding Stock Option Plan ("SOP"), Cashless Exercise ("CSX"), and Directed Share Business ("DSB") accounts).

All NRC accounts[15] must be held by an International Client Advisor ("ICA") or in a JPN where an ICA(s) receives at least 70% of the Gross Revenue split from that JPN[16]. Gross Revenue generated by NRC accounts that do not comply with this policy will be subject to a 0% Credit Rate.

The Credit Rate applicable to Gross Revenue generated by NRC accounts will be three percentage points lower than the Credit Rate reflected on the standard Credit Rate Schedule. The maximum impact to 2018 Total Credits will be the lower of $35,000 per individual Advisor or $70,000 per Team[17], after which the lower Credit Rate on NRC accounts will no longer apply.

Transactional Futures Business

Transactional Futures accounts must be held by a designated Futures Specialist or in a JPN where a designated Futures Specialist(s) is credited with at least 60% of the Gross Revenue split from that JPN. Gross Revenue generated by Transactional Futures accounts that do not comply with this policy will be subject to a 0% Credit Rate.

[15] Does not include U.S. expatriate accounts

[16] Accounts in households with greater than $5,000,000 in assets as of December 31st, 2015 may be held in a JPN where an ICA(s) receives at least 50% of the Gross Revenue split from that JPN

[17] For purposes of the Team cap, eligible Teams must consist of two or more Advisors who are on an approved Team and who each derive at least 50% of their individual Trailing 12-month Gross Revenue from business generated in JPN(s) they share with each other

Inherited Accounts

Accounts that are reassigned through the Account Redistribution System ("ARS") will earn a 0% Credit Rate for the calendar month of reassignment, and for the next three calendar months thereafter (the "Window Period"), except under the following situations:

- Former Advisors (i.e. retired Advisors) will continue to receive the Credit Rate pursuant to their executed Former Advisor Program ("FAP") documentation
- Households in the same JPN for at least 12 months immediately preceding reassignment through ARS
- Households that were in a JPN, or FA-number, with the remaining Advisor(s) before the Households' current, pre-reassignment, JPN was established

If at the end of this Window Period the Household's[18] ending asset value[19] is 50% or greater than the Household's initial asset value[20], then the Advisor will be eligible for Supplemental Inherited Account Compensation.

- Supplemental Inherited Account Compensation will be in the form of Credits, pursuant to this Compensation Plan, calculated based on the Advisor's Credit Rate at the end of this Window Period and the Gross Revenue generated by the reassigned Household(s) during the Window Period for which the Advisor had previously earned a 0% Credit Rate.

If at the end of this Window Period the Household's ending asset value is less than 50% of the Household's initial asset value, then the Advisor will not be eligible for Supplemental Inherited Account Compensation, but will be eligible to earn Credits, pursuant to this Compensation Plan, prospectively.

Example 1:

Advisor #1 receives a reassigned Household through ARS on April 20th, 2018 with the following characteristics:

- $1,000,000 in assets as of the reassignment date
- Generates $3,000 in Grid Revenue between April 20th, 2018 and July 30th
- $1,100,000 in assets as of July 31st, 2018

Advisor #1 is eligible for Supplemental Inherited Account Compensation since the Household asset level is at least 50% of the asset level as of the date of reassignment:

- The Advisor's July monthly Credit Rate is 36%
- Supplemental Inherited Account Compensation = $3,000 Grid Revenue * 36% Credit Rate
- Beginning August 1st, 2018, Advisor #1 will receive Credit on all Creditable Revenue associated with this Household prospectively

Example 2:

Advisor #2 receives a reassigned Household through ARS on July 19th, 2018 with the following characteristics:

- $500,000 in assets as of the reassignment date
- Generates $2,000 in Grid Revenue between July 19th, 2018 and October 31st,
- $100,000 in assets as of October 31st, 2018

Advisor #2 is not eligible for Supplemental Inherited Account Compensation since the Household asset level is below 50% of the asset level as of the date of reassignment:

- Supplemental Inherited Account Compensation = $0
- Beginning November 1st, 2018, Advisor #2 will receive Credit on all Creditable Revenue associated with this Household prospectively

[18] As defined by the Household Account Eligibility policy hosted on 3DR > Service > Accounts, Pricing & Reporting > Pricing And Householding
[19] Household asset value is determined as of the close of business on the second to last trade date of the third calendar month following the month of reassignment
[20] Household asset value is determined as of the close of business on the trade date immediately preceding reassignment through the Account Redistribution System

SECTION 2: Lending Growth Award

2.1 Lending Growth Award Program

Lending Growth Award Program Structure

The 2018 Lending Growth Award Program consists of a Lending Growth Award, 25% Additional BDA, and a Support Staff Recognition Balance.

The Lending Growth Award Program is intended to reward Advisors for expanding Lending business consistent with the financial needs and investment objectives of clients. The Program will consider total growth in LAL (excluding Letters of Credit), ECL, Tailored Lending, Margin, and Mortgage (excluding HELOC).

Lending Growth Award Schedule

The Lending Growth Award will be issued to Advisors as a 5-year bonus agreement. The bonus agreement will have terms and conditions that will include requirements relating to ongoing employment in good standing, mandatory arbitration, and other material terms, which will be set forth in the applicable documentation in detail, and which must be accepted in order to accept the award. Any Lending Growth Award under $10,000 will be paid as cash in the first quarter of 2019, but in no event later than March 31, 2019.

25% Additional BDA, earned as part of the Lending Growth Award Program, will be funded along with 2019 BDA and will be 25% of the 2018 BDA amount.

The Support Staff Recognition Balance, will be aggregated and funded in the support staff compensation system in the first quarter of 2019. The Advisor will be able to allocate this aggregated Support Staff Recognition Balance to eligible support staff employees.

In order to be eligible to receive any component of the Lending Growth Award Program, Advisors must be employed in good standing as of the payment/funding date.

Loan Eligibility

Advisors who receive a Lending Growth Award may also be eligible for a loan in the first quarter of 2019. The loan will have terms and conditions that will include requirements relating to ongoing employment in good standing and other material terms, including, but not limited to, a general release of all claims against the Firm, which will be set forth in the applicable documentation in detail.

Lending Growth Award Program Eligibility

To be eligible for the Lending Growth Award Program, Advisors must meet the following requirements:

- Must be hired before January 1st, 2016; AND
- Not be part of the Financial Advisor Associate ("FAA") program at the end of 2018; AND
- Have Gross Revenue in 2017 that is greater than zero AND were not in a non-producing role at any time during 2017; AND
- Have positive Gross Revenue growth in 2018 with respect to 2017; AND
- Not end 2018 with a 20% Credit Rate; AND
- Have a minimum of $500,000 in Lending Balance Growth (at the post-split level) at the end of 2018 with respect to 2017

If at least one member of a Team is eligible for Team Compensation, positive Gross Revenue growth in 2018, with respect to 2017, will be evaluated based on aggregate Gross Revenue growth for all Advisors[21] on the Team. Otherwise, positive Gross Revenue growth will be evaluated based on individual Gross Revenue growth. All other Lending Growth Award Program Eligibility criteria must be satisfied on an individual basis in order to qualify.

[21] Includes Advisors hired after January 1st, 2016, FAAs, Advisors with Gross Revenue in 2017 that was less than or equal to zero, Advisors who were in a non-producing role during 2017 and Advisors with a 20% Credit Rate at the end of 2018

SECTION 2: Lending Growth Award

Lending Growth Award Calculation

2018 Lending Balance Growth will be calculated as follows:

Liquidity Access Line ("LAL" (excluding Letters of Credit), Express Credit Line ("ECL"), Tailored Lending, and Margin: For each Loan, pre-split outstanding daily balances will be averaged to calculate month-end balances in 2017 and 2018. Month-end balances in 2018 will be compared to the Loan's full-year 2017 average month-end balance to determine 2018 pre-split monthly balance growth. Month-end JPN split percentages will be applied to 2018 pre-split monthly balance growth to determine 2018 post-split monthly balance growth.

Margin balances that are not on the Retail Margin platform and are not reported/included on 3D Private Banking Home Page are not credited towards balance growth calculations.

Mortgage (excluding Home Equity Line of Credit ("HELOC")): Newly originated Morgan Stanley Private Bank, National Association ("MSPBNA") Mortgages closed and disbursed by December 28th, 2018 will be included in the Lending Growth Award (baselines will be zero for the purposes of calculating 2018 Lending Balance Growth). Only Mortgages for which Advisors are eligible for incentive compensation will be includable in the Lending Growth Award (i.e. Advisors must be dually employed by MSSB and MSPBNA and NMLS registered to have Mortgage(s) included in the calculation of any Lending Growth Award).

Notwithstanding the above, Employee Loans will be included in the Lending Balance Growth calculation, as specified below. An Employee Loan is a Mortgage secured by a U.S. property and closed and disbursed by MSPBNA to individuals who are full-time or part-time U.S. based employees of Morgan Stanley. A personal Mortgage for an Advisor is a Mortgage for which the Advisor is a named borrower/co-borrower/obligor in the Mortgage and is excluded as indicated below.

A Mortgage is closed at the time all loan proceeds for such Mortgage are disbursed to the named borrower/co-borrower/obligor in the Mortgage:

- An Employee Loan, which is booked in a Primary or Secondary number or a JPN, and is not a personal Mortgage for an Advisor in a Primary or Secondary number or a JPN will count toward Lending Balance Growth
- An Employee Loan booked in a Primary or Secondary number that is the Advisor's personal Mortgage will not count toward Lending Balance Growth.
- An Employee Loan booked in a JPN where the Employee Loan is a personal Mortgage for an Advisor who is a member of the JPN, the Advisor related to such personal Mortgage will not receive Lending Balance Growth credit. The remaining members of the JPN will receive credit toward Lending Balance Growth.

To determine 2018 Lending Balance Growth, the average of 2018 post-split monthly balance growth in LAL (excluding Letters of Credit), ECL, Tailored Lending, and Margin as of December 31, 2018 will be added to new Mortgages closed and disbursed by December 28, 2018 (excluding HELOC). At year-end, qualifying Lending Balance Growth is eligible for an award based on the below Lending Growth Award Schedule.

Lending Growth Award Schedule

Lending Balance Growth as of 12/31/18 ($)	Advisor Award (bps)	Support Staff Recognition Balance ($)
22,500,001 – 45,000,000	50	10,000
15,000,001 – 22,500,000	45	5,000
7,500,001 – 15,000,000	40	3,000
0 – 7,500,000	35	1,000

SECTION 2: Lending Growth Award

The Lending Growth Award Schedule does not apply retroactively. The specified Advisor Award applies only to the dollars of qualifying 2018 Lending Balance Growth that fall within the corresponding Lending Balance Growth bands.

The Support Staff Recognition Balance will be the amount that corresponds to the highest Lending Balance Growth band the Advisor achieves.

25% Additional Business Development Allowance ("BDA")

Advisors who meet the Lending Growth Award Program Eligibility Criteria are eligible for 25% Additional BDA in 2019 based on the 2018 BDA policy. 25% Additional BDA will be funded in the first quarter of 2019. Please refer to Section 3.3 for further details on the BDA program.

Support Staff Recognition Balance

Advisors who meet all Lending Growth Award Program Eligibility Criteria will have the opportunity to recommend the distribution of the Support Staff Recognition Balance to one or more eligible support staff employee(s) for supporting growth and client service in the Advisor's business during 2018. Distribution of the Support Staff Recognition Balance should be based on the employee's overall contribution to client service, support and engagement, guardianship, and quality of work in helping to achieve the Lending Growth Award, not based on specific loan production or volume.

The Support Staff Recognition Balance will be the amount that corresponds to the highest Lending Balance Growth band the Advisor achieves in 2018. For Advisors who meet all Lending Growth Award Program Eligibility criteria except for positive Gross Revenue growth, the Support Staff Recognition Balance will be 50% of the amount that corresponds to the highest Lending Balance Growth band the Advisor achieves in 2018. Support Staff Recognition Balances will be payable as cash in the support staff compensation system in the first quarter of 2019.

Support Staff Recognition Balance recipients must be in a support staff role that is eligible to receive compensation through AFG as of the date of payment, and both recipient and distributing Advisor must be employed by the Firm, in good standing, as of the date of payment. Firm management will make final decisions on eligibility, allocation, and distribution of any Support Staff Recognition Balance.

SECTION 2: Lending Growth Award

Lending Balance Growth Calculation Example:

An Advisor has a 2017 average month-end balance of $45,000,000 in qualified LAL[22], ECL, Tailored Lending, and Margin products in 2017. With a 2018 average month end balance of $70,000,000 in qualified LAL[21], ECL, Tailored Lending, and Margin products, and $10,000,000 in new MSPBNA Mortgages[23] closed and disbursed as of December 28, 2018, the Advisor will have $35,000,000 in 2018 Lending Balance Growth as calculated below.

Lending Balance Growth Example

Month	LAL[21], ECL, Tailored Lending, and Margin Month-End Balance ($)	LAL[21], ECL, Tailored Lending, and Margin Monthly Balance Growth
2017 Average Month-End Balance	**45,000,000**	-
Jan 2018	75,000,000	30,000,000
Feb 2018	80,000,000	35,000,000
Mar 2018	70,000,000	25,000,000
Apr 2018	60,000,000	15,000,000
May 2018	90,000,000	45,000,000
Jun 2018	75,000,000	30,000,000
Jul 2018	50,000,000	5,000,000
Aug 2018	40,000,000	-5,000,000
Sep 2018	75,000,000	30,000,000
Oct 2018	70,000,000	25,000,000
Nov 2018	80,000,000	35,000,000
Dec 2018	75,000,000	30,000,000
Sum of Monthly Balance Growth		**300,000,000**
Average Monthly Balance Growth:		**300,000,000 / 12**
LAL[21], ECL, Tailored Lending and Margin Balance Growth in 2018:		**25,000,000**

Period	New Mortgages[22] Closed as of December 28, 2018
Jan 1st – Dec 28, 2018	10,000,000
Total Lending Balance Growth:	**25,000,000 + 10,000,000 = 35,000,000**

Lending Growth Award Calculation Example (inclusive of Support Staff Recognition Balance):
Advisor has $35,000,000 of qualifying 2018 Lending Balance Growth and is eligible for the following awards if the Advisor also meets the eligibility criteria defined above:

Lending Growth Award Calculation Example

Lending Balance Growth as of 12/31/18 ($)	Advisor Award ($)	Support Staff Recognition Balance ($)
Final 12,500,000 at 50 bps	62,500	10,000
Next 7,500,000 at 45 bps	33,750	-
Next 7,500,000 at 40 bps	30,000	-
First 7,500,000 at 35 bps	26,250	-
Total:	**152,500**	**10,000**

Morgan Stanley Wealth Management reserves the full discretion to review all Lending activity and determine whether such activity is appropriate for exclusion and may, in its sole discretion, exclude any activity that it deems to be inconsistent with the spirit or intent of the Lending Growth Award or inconsistent with the interests of clients. For example, Lending Growth Awards attributable to reallocation of existing loan balances from one FA number/JPN to another may be denied or adjusted.

[22] Excluding Letters of Credit
[23] Excluding HELOC

SECTION 3: Other Programs

3.1 Capital Accumulation Program

The Capital Accumulation Program ("CAP") provides the opportunity for eligible Advisors (including Producing Branch Managers and Resident Managers) to defer a portion of 2018 monthly cash compensation on a pre-tax basis (up to 25%, in 5% increments) into Morgan Stanley stock units ("Basic Units") and receive a number of bonus stock units based on the amount of Basic Units awarded ("Bonus Units").

Advisors are eligible to participate in CAP for 2018 if they achieved a minimum Trailing 12-month Gross Revenue (through September 30th, 2017) of $400,000 and had a minimum of five years of LOS as of December 31st, 2017 (provided that, for Advisors who are Chairman's Club members as of December 2017, the minimum service requirement is three years).

Contribution elections, which cannot exceed $250,000 annually, or, for Chairman's Club members as of December 2017, $350,000 annually, must be made by the end of 2017.

Advisors who elect to participate in CAP will be awarded Bonus Units in an amount equal to either 25% (for Chairman's Club members as of December 2017) or 20% (for all other eligible Advisors) of the number of Basic Units awarded.

The Basic Units and Bonus Units will be granted on the 15th day of the month following the end of each calendar quarter, with the number of Basic Units awarded based on the amount of the deferral divided by the fair market value of a share of Morgan Stanley common stock on such date (which is generally the average of the closing prices of Morgan Stanley stock on each of the three month-ends preceding the grant date). Subject to the Advisor satisfying the terms and conditions of the award, the Basic Units will vest on the grant date, the Bonus Units will vest on April 15th, 2021, and the Basic Units and Bonus Units will convert to shares of Morgan Stanley common stock on April 15th, 2021.

Advisors must be continuously employed by the Firm through the grant date in order to be awarded the Basic Units and Bonus Units. Termination of employment for any reason prior to the Bonus Unit vesting date will generally result in the cancellation of all Bonus Units and, in general, the previously granted Basic Units will convert to shares of Morgan Stanley common stock on the original scheduled conversion date.

The Basic Units will not be subject to cancellation following grant, but Bonus Units will be subject to cancellation if the Advisor engages in certain prohibited activity prior to conversion as described in the award documentation. The stock units will also be subject to such other terms and conditions as set forth in the award documentation.

Additional information may be found in the current prospectus, a copy of which may be obtained by accessing the Executive Compensation intranet website located at the following address: http://execcomp.corpms.com/site/execcomp/webapp/portfolio.jsp

3.2 Former Advisor Program ("FAP")

Exceptional client service is the foundation of our business, which is why Morgan Stanley Wealth Management offers flexibility and assistance to Advisors considering retirement from the industry.

The following five options, which may not be mutually exclusive, are currently offered through the FAP:

- **Individual Option** for Advisors with client accounts not under a Joint Production Agreement (JPA)
- **Joint Production Option** for Advisors servicing accounts under a JPA for the duration required by current applicable policy
- **Teaming Option** for Advisors who are members of a Team, or Advisors who join and transition their book of business to a Team, for the duration required by current applicable policy
  - Eligible to receive Team Compensation for 2, 3, or 4 years prior to retirement date, in addition to receiving Team Compensation Cash Credits on FAP
- **Enhanced Option** for Advisors who, for at least 2 years, have been a member of a JPA or Team from which more than 50% of their revenue is generated
- **Platinum Option** for President's or Chairman's Club Advisors[24] who, for at least two years, have been a member of a JPA or Team from which more than 50% of their revenue is generated
  - Eligible to receive a 2, 3, or 4 year bonus agreement equal to 50% of Trailing 12-month Gross Revenue, prior to retirement date, in addition to the Enhanced Option FAP after retirement

For more information on eligibility and conduct requirements / restrictions for retiring Advisors ("Former Advisors") and Active Advisor participants, please refer to the 2018 Former Advisor Program Guide located on the 2018 Advisor Compensation website on 3DR > Practice > Advisor Compensation 2018 or contact your local Human Resources representative.

Please be advised that FAP is subject to SEC, FINRA, and state regulatory requirements. The terms of the FAP are subject to change at the discretion of Morgan Stanley Wealth Management for any reason, including changes in applicable regulatory or legal requirements pertaining to such programs.

[24] Regardless of club designation, Advisors must have met the qualifying revenue criteria as described in the 2017 Financial Advisor / Private Wealth Advisor Compensation Plan, Growth Award and Recognition Program guide for President's and Chairman's club membership during the 2018 calendar year. Morgan Stanley Wealth Management reserves the right to disqualify any Advisor from the Platinum Option, in its discretion, where Morgan Stanley Wealth Management determines the Advisor has manipulated revenue splits within a Team in order to qualify, or has engaged in any other conduct inconsistent with the intention of the program

3.3 Business Development Allowance ("BDA") Program

Under the Business Development Allowance ("BDA") Program, eligible Advisors will have access to corporate funds for business development purposes[25], such as client entertainment, seminars and/or marketing. At year-end, any unused BDA will be canceled and will not carry over into the following year. BDA allocations are determined in January 2018 and are based on 2017 Gross Revenue and the following schedule:

Business Development Allowance Schedule

2017 Gross Revenue ($)	2018 Allowance ($)
10,000,000+	25,000
5,000,000–9,999,999	20,000
2,750,000–4,999,999	15,000
1,800,000–2,749,999	12,000
1,200,000–1,799,999	10,000
900,000–1,199,999	5,000
600,000–899,999	3,000
485,000–599,999	1,000
360,000–484,999	500
0–359,999	250

FAAs generating Gross Revenue will receive a BDA based on eligible Gross Revenue as per the policy above. FAAs who begin generating Gross Revenue in the current year will receive a pro-rated BDA based on the lowest revenue band.

The BDA allocation is subject to the Firm's policies and procedures for expenditures.

BDA Reallocation

During the AFG Election period in December 2017, qualifying Advisors on a Team will have the ability to:

- Transfer 2018 BDA to other Advisors on their Team and qualified exempt support staff employees[26]
- Transfer 2018 BDA to the Team BDA

Advisors on a Team will have the ability to aggregate a percentage of 2018 BDA for Team-approved business development purposes. Team BDA expenses are subject to the BDA and Team AFG guidelines.

Additional details pertaining to eligible expenses can be found in the 2018 Alternative Flexible Grid Policy and 2018 Wealth Management Expense Policy located on the 2018 Advisor Compensation website.

[25] See the Morgan Stanley Wealth Management Expense policy for additional details.
[26] Business Development Director, Director of Business Strategy or Group Director

3.4 Alternative Flexible Grid ("AFG") Program

The Alternative Flexible Grid ("AFG") is a program through which participating Advisors, prior to the start of the calendar year, may elect an effective Credit Rate adjustment for the year and become eligible for certain additional Firm funds for expenditure on additional luxury resources[27]. With these additional Firm funds, the Advisor may direct the Firm to provide additional compensation to support staff as well as additional resources above those necessary to perform Advisor duties. In order to participate in the AFG Program, Advisors must have a minimum $200,000 in Trailing 12-month eligible Gross Revenue (excludes 0% Revenue). Advisors who have a projected 2018 Credit Rate of 20% will not be permitted to make an AFG election.

Advisors should utilize the AFG worksheet prior to the start of the year to determine whether to participate and, if so, at what level. In this worksheet, the effective Credit Rate adjustment requested by the Advisor is calculated by determining elected additional support staff compensation contemplated by the Advisor and additional luxury business resources. With Branch Manager approval, this effective Credit Rate adjustment will be applied to transactions between January 1, 2018 through November 30, 2018. Only after the implementation of this Credit Rate adjustment will Incentive Compensation be determined for participating Advisors, as set forth in this Program.

The magnitude of the AFG effective Credit Rate adjustment elected will determine the AFG amount. This amount will enable the Advisor to direct the Firm to provide additional support staff compensation and additional luxury business resources. Any remaining balance at year-end will not be carried forward into the following year.

Standard Checkpoint: Advisors will be provided one checkpoint in August 2018, during which time they will be granted an open window to change their effective Credit Rate adjustment for the time remaining in the calendar year. If a change is made during the Standard Checkpoint, a new AFG worksheet must be completed.

Contingency Checkpoint: In the event that a support staff employee, who is part of an Advisor's team, terminates from the Firm, the Advisor may elect to open the checkpoint window before August and forgo the Standard Checkpoint. Use of this option requires the Advisor to verify support staff termination, is subject to Branch/Complex manager approval and requires a new AFG worksheet to be completed.

All AFG arrangements will be canceled at the end of the calendar year, and Advisors must re-elect for the following calendar year. No balance will be carried forward into the following calendar year.

Team AFG

Advisors on a Team where all Team members generate a minimum 80% of their Trailing 12-month Gross Revenue from Team JPN(s), and who individually satisfy the AFG qualifications, may be eligible for Team AFG.

Teams can direct the Firm to provide additional resources that will mutually benefit the Team. Team AFG expenses should exclude ineligible AFG expenses and individual expenses that do not benefit the Team.

Additional details on the 2018 AFG program can be found on the 2018 Advisor Compensation website.

[27] See the Morgan Stanley Wealth Management Expense Policy for additional details

3.5 Discretionary Fee Waiver Allowance

The Discretionary Fee Waiver Allowance ("DFWA") is provided to Advisors to waive select account and service fees in client accounts. It is important to note that some of these fees are already waived as part of the Reserved Program. At year-end, any unused DFWA will be canceled and will not carry over into the following year. Allowances are based on 2017 Gross Revenue, as follows:

Discretionary Fee Waiver Allowance Schedule

2017 Gross Revenue ($)	2018 Allowance($)
2,400,000+	4,000
1,800,0000–2,399,999	3,000
1,200,000–1,799,999	2,750
900,000–1,199,999	2,500
600,000–899,999	2,000
300,000–599,999	1,500
120,000–299,999	500
0–119,999	0

4.1 Club Memberships for 2019

The Firm's recognition programs are designed to recognize outstanding performance by Advisors. In addition to demonstrated leadership in the best practices of wealth management, the Firm's recognition Club Members must be in good standing and satisfy other aspects of the Firm's performance, conduct and compliance standards and expectations, as determined by the Firm.

At the beginning of 2019, Club Memberships will be assigned based on 2018 calendar year Gross Revenue OR 2018 calendar year Total Revenue Premium, as well as LOE and Assets Under Management ("AUM") for Pacesetter's Club only, as follows:

Club Memberships

Club Type	Qualifying Criteria
Chairman's Club	Rank amongst the top 2% of the Advisor population in Gross Revenue for 2018 OR amongst the top 2% in Total Revenue Premium for 2018
President's Club	Rank amongst the next 5% of the Advisor population (after Chairman's Club) in Gross Revenue for 2018 OR amongst the next 5% in Total Revenue Premium for 2018
Master's Club	Rank amongst the next 10% of the Advisor population (after President's Club) in Gross Revenue for 2018 OR amongst the next 10% in Total Revenue Premium for 2018
Century Club	Rank in the next 10% of the Advisor population (after Master's Club) in Gross Revenue for 2018 OR amongst the next 10% in Total Revenue Premium for 2018
Pacesetter's Club (Only Advisors with an LOE of 5 or below will be eligible for this Club)	Achieve minimum Gross Revenue of $100,000 OR minimum Total Revenue Premium of $140,000 AND minimum AUM of $8,000,000 for Advisors with an LOE of 0, 1
	Achieve minimum Gross Revenue of $200,000 OR minimum Total Revenue Premium of $280,000 AND minimum AUM of $15,000,000 for Advisors with an LOE of 2
	Achieve minimum Gross Revenue of $250,000 OR minimum Total Revenue Premium of $350,000 AND minimum AUM of $20,000,000 for Advisors with an LOE of 3
	Achieve minimum Gross Revenue of $300,000 OR minimum Total Revenue Premium of $420,000 AND minimum AUM of $25,000,000 for Advisors with an LOE of 4
	Achieve minimum Gross Revenue of $350,000 OR minimum Total Revenue Premium of $490,000 AND minimum AUM of $30,000,000 for Advisors with an LOE of 5

Club Memberships may be withdrawn by the Firm, at any time, in its full discretion. This includes, without limitation, the Firm's full discretion to review all Advisor conduct, and all Gross Revenue, Total Revenue Premium and AUM activity and determine whether such activity is appropriate for inclusion. For purposes of Club Memberships, the Firm may exclude any Advisor or revenue that the Firm deems to be inconsistent with the spirit of Club Membership or inconsistent with the interests of the Firm or clients. For example, Gross Revenue, Total Revenue Premium and/or AUM attributable to manipulation of JPN(s), without a business explanation the Firm finds satisfactory, may be omitted or reduced in evaluating eligibility.

4.2 Titles

In addition to specific recognition clubs, the Firm also grants titles to recognize the outstanding performance of Morgan Stanley Wealth Management Advisors. Titles are awarded based on achievement of specific Gross Revenue or Total Revenue Premium levels and the maintenance of high standards of the Firm, including being in good standing and satisfying the Firm's expectations for excellence in all areas, including, but not limited to, guardianship, personal conduct, and adherence to regulatory and compliance requirements.

Titles may be denied, changed or withdrawn at any time by the Firm, in its full discretion.

Managing Director, Wealth Management

Eligibility:

- Minimum cumulative Gross Revenue of $8,800,000 OR Total Revenue Premium of $12,300,000 over the last three years; OR
- Minimum cumulative Gross Revenue of $25,000,000 over the last ten years AND 30 or more years of LOS

Advisors who meet either criteria are eligible for selection by the Firm for the Managing Director, Wealth Management title.

Additional criteria for Managing Director, Wealth Management includes:

- Exhibiting leadership both externally and internally
- Being an ambassador and role model of Morgan Stanley Wealth Management's vision and business principles
- Pursuing excellence and holding self and others to the highest standards
- Consistently exemplifying high standards of corporate guardianship

Executive Director

Eligibility: Minimum cumulative Gross Revenue of $4,400,000 OR Total Revenue Premium of $6,150,000 over the last two years.

Advisors who meet the 2-year Gross Revenue OR Total Revenue Premium requirement are eligible for selection by the Firm for the Executive Director title.

Senior Vice President

Eligibility: Minimum Prior Year Gross Revenue of $1,100,000 OR Total Revenue Premium of $1,550,000

First Vice President

Eligibility: Minimum Prior Year Gross Revenue of $825,000 OR Total Revenue Premium of $1,150,000

Vice President

Eligibility: Minimum Prior Year Gross Revenue of $550,000 OR Total Revenue Premium of $770,000

Associate Vice President –

Eligibility:

- Minimum Prior Year Gross Revenue of $440,000 OR Total Revenue Premium of $615,000; OR

5.1 Summary and Additional Information

Morgan Stanley Wealth Management provides one of the most comprehensive Advisor Compensation Plan, Growth Award and Recognition Programs in the securities industry.

This brochure summarizes the Morgan Stanley Wealth Management Advisor Compensation Plan, Growth Award and Recognition Programs in effect for 2018 unless otherwise noted. Morgan Stanley Wealth Management reserves the right to amend, modify, interpret or terminate all or any part of the Program for any year and at any time. Nothing in this brochure is a guarantee of continued employment or of any particular benefits or level of remuneration.

This Compensation Plan and the additional product guidelines and policies referenced in this Compensation Plan set forth guidelines only. Notwithstanding anything to the contrary contained in this Compensation Plan or elsewhere, Morgan Stanley Wealth Management has the sole discretion to determine whether to allocate Credit to an Advisor's Gross Revenue (or to provide compensation in any form) for any particular business and, if so, the amount of Credit to be allocated or the amount of compensation to be awarded, and further Morgan Stanley Wealth Management may adjust and/or decline to award future Credits towards Incentive Compensation where an Advisor has an unsatisfied obligation to the Firm. Under no circumstances is an Advisor eligible to receive any Credit to Gross Revenue or any compensation for any particular business unless and until Morgan Stanley Wealth Management receives the revenue associated with that business. Furthermore, if an Advisor is determined to have engaged in activity that is inconsistent with Morgan Stanley's expectations for good guardianship, or not in line with any policy, regulation or otherwise counter to the best interests of our clients, then such Advisor may be deemed, in Morgan Stanley's discretion, not to have qualified for compensation, growth awards or any bonus program listed herein. If an Advisor's employment terminates for any reason before Morgan Stanley Wealth Management receives the revenue for any particular business, the Advisor will not be eligible for any Credit to Gross Revenue or any compensation associated with that business and, in the event Morgan Stanley Wealth Management ultimately refunds all or a portion of such revenue for any reason, any associated Incentive Compensation paid on the basis of such revenue shall be deemed an overpayment to the Advisor. Additionally, an Advisor must be employed in good standing at the time that Morgan Stanley Wealth Management receives the revenue to be eligible for any Credit to Gross Revenue or any compensation associated with that business.

In the event that Morgan Stanley Wealth Management determines that any payment or award under this Compensation Plan or any other compensation plan or program would violate any legal, regulatory or contractual obligation, or create undue risk of such violation, such payment or award will not be made, notwithstanding anything to the contrary in this Compensation Plan. Morgan Stanley Wealth Management retains the full discretion and authority to interpret, modify, and/or terminate the Compensation Plan, or any of the individual guidelines described in the Compensation Plan, at any time, with or without notice, and to resolve any dispute arising out of or in any way related to the Compensation Plan. Morgan Stanley Wealth Management's interpretations and decisions shall be final and binding on all parties.

The information contained in this brochure briefly describes certain employee compensation programs and deferred incentive compensation awards and other arrangements. It is important to note that this brochure merely summarizes the provisions of those programs, awards and plans, and does not address all of their terms, conditions and restrictions. Advisors should consult the pertinent compensation program, plan document or award certificate for a full explanation of their provisions. If there is a conflict between this brochure and any formal compensation program, deferred compensation plan, plan document or award certificate, then the formal program, plan document or award certificate will control. All compensation and recognition plans are subject to changes due to tax laws and other legal requirements or at the discretion of Morgan Stanley Wealth Management.

5.2 Version History

This section tracks changes made to the 2018 Advisor Compensation Plan, Growth Award and Recognition Programs during 2018. The table below documents the date, page number and a brief description of the change for easy reference.

Date	Page Number	Description
October 30, 2017	-	Initial publication
November 2, 2017	2	Update to state minimum salaries
November 8, 2017	15	Update to Fixed Income DVP Credit Rate
November 8, 2017	16	Update to NRC Business
November 20, 2017	2	Update to state minimum salaries
November 20, 2017	15	Update to CAC Referrals
November 21, 2017	16	Update to NRC Business
November 29, 2017	24	Update to BDA Program
November 29, 2017	25	Update to AFG Program
December 12, 2017	10	Update to Advisor/Advisor-Related Retirement Accounts
January 24, 2018	20	Update to Lending Growth Award